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July 19, 2002

EX PARTE – Via Electronic Filing

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Ex Parte Filing in CC Docket Nos. 96-45, 98-171, 90-571, 92-237,
99-200, 95-116 and NSD File No. L-00-72

Dear Ms. Dortch:

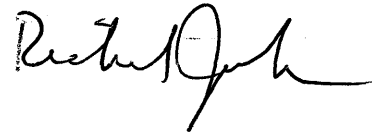
Following the Commission's June 21, 2002 Public Meeting with members of the Federal/State Joint Board on proposals to reform the universal service contribution methodology, Commissioner Rowe addressed additional questions to all participants. Sprint is submitting its response as an Ex Parte filing in order that it become part of the public record in the above-captioned dockets.

In the attached, Sprint responds to the questions addressed to it, as well as to some of the questions directed to the Coalition. Sprint again urges the Commission to act expeditiously to replace the system which is beyond repair and to adopt a contribution methodology which is based on end-user connections with a collect-and-remit system of recovery. Although many parties do not agree with this approach, Sprint believes that it is fully consistent with the Act and will provide a sound basis to

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support the universal service fund in the rapidly changing
telecommunications environment.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard J. Durkin", with a stylized flourish at the end.

Attachment

cc: Chairman Michael K. Powell
Commissioner Kathleen Abernathy
Commissioner Michael J. Copps
Commissioner Kevin J. Martin
Commissioner Thomas Dunleavy
Commissioner Lila A. Jaber
Commissioner Bob Rowe
Commissioner Nan Thompson
Billy Jack Gregg, Director
Eric Einhorn, Wireline Competition Bureau
Paul Garnett, Wireline Competition Bureau
Vickie Byrd, Wireline Competition Bureau
Jonathan Secrest, Wireline Competition Bureau
Diane Law Hsu, Wireline Competition Bureau

DICK JUHNKE'S RESPONSES TO BOB ROWE'S QUESTIONS

PANEL 1, QUESTIONS TO ALL:

Were it allowed, would you support an assessment on all telecom services revenue (inter- and intra-state combined)?

Sprint would not support an assessment on all telecommunications revenues in lieu of a connection-based assessment, because expanding the revenue base would not remedy many of the problems inherent in a revenue-based collection methodology. In particular, simply expanding the assessment base would not address (1) the allocation of a portion of bundled offering of intrastate, interstate and international telecommunications services, CPE and non-telecommunications services to the intrastate/interstate/international jurisdiction to which the USF factor would be applied; (2) the advantage afforded to providers of IP telephony, which, under current FCC policies, are exempt from USF contributions; and (3) the penalty resulting from the 6-month lag on carriers with declining revenues vis-à-vis carriers with increasing revenue.

Highlight any parts of one another's proposals that you support.

Sprint's proposed per-connection methodology is similar in many fundamental respects to the Coalition's proposal, and Sprint therefore agrees with many aspects of the Coalition's proposal. First, Sprint supports a per-connection methodology under which the carrier providing the end user connection is responsible for collecting the fee. Second, Sprint concurs with a uniform initial monthly charge of \$1 for residential (other than Lifeline) and small business customers and a tiered structure for multi-line businesses. Sprint also supports changing the fees for all categories of customers by a

uniform percentage in the future to account for changes in funding requirements and in the number and types of connections. Third, Sprint believes that a collect-and-remit system should be adopted under which carriers remit USF fees they bill, less their experienced allowance for uncollectibles. This will avoid the need for carriers to adjust the rates they charge their customers to account for their uncollectibles and will therefore result in uniform end user charges across all carriers, thereby reducing customer confusion. Finally, under a per-connection methodology, such as Sprint's and the Coalition's, the carrier providing the connection knows which of its customers are Lifeline customers and can exclude them from the USF fee.

The principal difference between Sprint's and the Coalition's proposals concerns the treatment of wireless customers. Sprint's proposal bases the wireless connection fee on the current USF contribution of the wireless industry and therefore would establish a lower rate for wireless connections. Sprint believes its approach is justified on several grounds, including the fact that, unlike residential wireline customers whose services may still be subsidized by revenues carriers receive from other services (and indeed from USF itself), wireless customers have to pay the full, unsubsidized costs of their services and should not be further burdened. In order to achieve a consensus, however, Sprint would support the Coalition's plan with a three-year transition period for bringing the wireless connection charge to the wireline residential level.

Please evaluate the various proposals in terms of the Bonbright principles for good rate design.

The proposals of Sprint and the Coalition are consistent with all of the relevant attributes of a sound rate structure identified by Bonbright.

1. *The related, "practical" attributes of simplicity, understandability, public acceptability, and feasibility of application.*

A per connection proposal will be simpler for the public to understand than the current revenue-based methodology because all customers will be charged the same per-connection fee for any particular type of connection regardless of the carrier providing the connection. Sprint believes that a \$1 charge for residential and small business customers will be acceptable to the public.

In addition, collection of a connection-based fee by the carrier that provides the connection to the end user will be more efficient than multiple collections by multiple service providers (as the BellSouth/SBC plan requires), and therefore will hold down administrative and collection costs, which consumers ultimately bear. Since many carriers already apply per-connection charges to their customers on their bills, the cost of adding an additional line item based on similar billing logic should be relatively modest. Moreover, a significant percentage of long distance customers make no calls in any given month, and IXC's would not otherwise send bills to such customers. It would cost the IXC more to bill and collect the USF fee from such customers, and cost the customer more in postage and banking costs (*e.g.*, the cost of the check), than the amount of the fee itself. Therefore, the carrier providing the connection should be responsible for contributing to (and collecting for) the USF.

2. *Freedom from controversies as to proper interpretation.*

The per-connection fee embodied in the Sprint and Coalition plans is straightforward and easily understandable, and therefore there should be no controversy over the proper interpretation of the charge or its application. Other per-line charges

adopted in the past by the FCC (notably, the Subscriber Line Charge) have established the precedents for recovery of the USF on the same basis. In addition, collection of the fee by the provider of the connection will facilitate the exclusion of Lifeline customers, since it is the connection provider, not the presubscribed carrier, that knows which customers are Lifeline customers, thereby avoiding any issue of applying the charge to those who can least afford to pay it. Moreover, a connection plan, unlike the current revenue-based system, avoids such interpretive issues as whether a particular service is basic or enhanced, and how to allocate a bundled charge to USF-eligible services.

3. *Effectiveness in yielding total revenue requirements under the fair-return standard.*

Because the number of wireline connections is fairly stable and wireless connections continue to grow, the Sprint and Coalition per-connection methodologies will recover fully the current USF revenue requirement without continual increases in the per connection rate.

4. *Revenue stability from year to year.*

Because the total number of end user connections remains constant or increases, using connections for USF assessments is far more stable than service revenues, which can fluctuate with business cycles. Only if there were a major increase in uncollectibles or decrease in connections would the revenue collected through the per-connection USF fees be reduced significantly.

5. *Stability of the rates themselves, with a minimum of unexpected changes seriously adverse to existing customers. (Compare "The best tax is an old tax.")*

If, as can reasonably be expected, total connections continue to grow, the per connection charges will decline over time, unless USF funding requirements increase by more than

the growth in total connections. The current interstate revenue basis, by contrast, is declining, resulting in increases in the contribution factor that carriers must pay and, consequently, increases in the rates carriers charge their customers.

6. *Fairness of the specific rates in the apportionment of total costs of service among the different consumers.*

For the average wireline residential customer, the rate under the Sprint plan will be less than the current USF surcharges paid by the consumer. (FNPRM at ¶59) More fundamentally, the current assessment base – interstate and international revenues – bears no direct, logical relationship to the benefits of the federal USF programs. People and businesses benefit by the opportunity for universal connectivity, and that benefit is best captured by assessing contributions on connections to the network.

7. *Avoidance of “undue discrimination” in rate relationships.*

Undue discrimination will not be an issue under a per-connection methodology. Many other per-connection charges exist, so there is adequate precedent for a per-connection USF fee. Further, the fixed rate for each type of connection will avoid any discrimination among customers of the same type of connection. Finally, a per-connection methodology avoids the discriminatory impact of revenues of international-only or predominantly international carriers being exempted from the USF while revenues of competing, full-service providers are assessed.

8. *Efficiency of the rate classes and rate blocks in discouraging wasteful use of service while promoting all justified types and amounts of use.*

Assessing connections, rather than service revenues, avoids the distortions inherent in the present system, which gives an uneconomic advantage to IP telephone

services as compared with other technologies, and to international carriers that are exempt from USF contributions.

QUESTIONS TO SPRINT:

Can the four factors you list in the first part of your presentation be addressed directly? If not, please explain as specifically as possible.

(1) Sprint does not believe that the shrinking interstate revenue base, which leads to an upward spiral in the contribution factors and recovery surcharges, can be remedied.

Long distance telecommunications services revenues are being reduced by both intensive price competition and the increased use of other services, such as e-mail and Internet voice services, which do not contribute to the USF. The penalty on IXC's that are losing market share from the six-month revenue lag can be addressed by a collect-and-remit system, but the larger problem of the decline in the overall revenue base would remain..

(2) The allocation of bundled rates cannot be fixed, in Sprint's opinion. There simply is no "right" way to allocate revenues from bundled services to the interstate/international jurisdiction. Any proposal to establish a percent allocation will be inherently arbitrary and will necessarily penalize some companies and their particular bundles. The number of bundles is infinite because bundles can contain any variety of products and services (*e.g.*, local, intrastate interLATA, intrastate intraLATA, interstate, international wireline and mobile wireless calling, video, data, calling features, CPE, internet features). If adopted, allocation factors would give undue preference to some carriers' services and would drive carriers to tailor their bundles of services to minimize the USF charges. On the other hand, leaving the allocation to the individual carriers would continue the incentive to misreport the amount of interstate and international

revenues and to game the system. Therefore, bundles render the current revenue-based methodology unworkable.

(3) The only way to eliminate the competitive disadvantage on full-service carriers from international-only or predominantly international carriers would be to eliminate all assessments on international revenues. However, that would increase the burden on interstate revenues and exacerbate the advantage of IP telephone services.

(4) The current exemption of IP telephone service from USF fees disadvantages traditional carriers. If revenues from IP telephony services were subject to USF contributions, this disadvantage could be mitigated. However, it may be very difficult to police certain types of IP telephony (*e.g.*, software-enabled computer-to-computer telephony, as contrasted with phone-to-phone IP telephony) or to determine who should be the contributing entity (*e.g.*, the software provider, the computer manufacturer/vendor, etc.).

Are there any analyses (possibly generated for other purposes) that would shed light on the debate over whether the percentage of wireless traffic or revenues associated with interstate use is increasing, or is reasonably expected to increase. (Examples might include traffic studies for network engineering use or business planning analysis used in planning or pricing service offerings.)

Sprint has not prepared any such analyses.

QUESTIONS TO COALITION:

Does “on an equitable and non-discriminatory basis” describe *how* carriers should contribute, or *whether* they should contribute (and does your proposal imply the latter)?

In Sprint’s view, the phrase in Section 254(d) “on an equitable and non-discriminatory basis” describes both how and whether a particular carrier should

contribute. The “basis” is the form of assessment on telecommunications carriers that offer interstate services. The current basis is end-user interstate and (subject to some exceptions) international revenues, but nothing in the statute requires that revenues be used as the “basis” for equitable and non-discriminatory contributions. As Sprint explains elsewhere in its response to these questions, Sprint believes that connections to the network are far better correlated to benefits from the federal universal service programs than the current interstate and (for some carriers but not all) international revenues basis. This being the case, a system in which every carrier providing interstate services that supplies network connections to end-users is obligated to pay on the basis of the number and type of connections is “equitable and non-discriminatory” even though carriers that offer interstate services but supply no connections will contribute nothing.

There is no statutory requirement that all interstate carriers must contribute. Indeed, under the current system, a carrier specializing in providing wholesale services to other carriers is exempt from USF contributions no matter how large a revenue volume it generates. This exemption for certain carriers complies with the requirement to contribute “on an equitable and non-discriminatory basis.” Similarly, Sprint does not believe it is discriminatory or inequitable to exempt carriers that supply no end-user connections from USF contributions. A connection basis does not unfairly advantage or disadvantage any particular carrier that provides services using these connections, and no carrier is likely to decide to provide connections or refrain from doing so because connections are the contribution basis for federal USF mechanisms. This stands in sharp contrast to the current revenue-based approach which induces international specialists to refrain from entering domestic services (or at least minimizing their involvement in such

services) so as to give themselves a decided cost advantage vis-à-vis full service carriers in their provision of international services. The present system also artificially induces carriers to provide services using technologies that are not at present subject to USF assessments (such as using IP telephony rather than more conventional transmission protocols). These inequitable and discriminatory aspects of the current recovery mechanism contribute to the current funding deficiency.

Does “specific, predictable and sufficient” describe the mechanism to which carriers must contribute, or who should contribute?

In parsing out the phrase “the specific, predictable, and sufficient mechanisms...” in Section 254(d), the word “mechanisms” appears to be most related to the actual USF-supported programs. However, in Sprint’s view, it would be short-sighted to ignore the implications of the contribution basis on the sufficiency and predictability of the support mechanisms themselves. If, as Sprint believes is the case under the present revenue-based methodology, the contribution base is subject to declines – indeed, declines that have occurred unexpectedly, the resulting increase in the contribution rate and the consequent increase in charges carriers impose on their customers to recover their contributions can undermine public support for continued funding of worthy universal service support programs. Thus, having a more stable basis for USF assessments helps ensure that the USF support mechanisms themselves will in fact be sufficient and predictable.

Do you place over-reliance on the “de minimis” provision?

Sprint does not believe that the “de minimis” provisions of Section 254(d) would need to be relied on at all under a connection-based contribution system. Sprint believes

it would be reasonable to assess every carrier providing end-user connections regardless of the number of such connections. As noted above, Section 254(d) does not flatly require all carriers to contribute unless they qualify for a de minimis exception. Rather, the statute requires all carriers providing interstate services to contribute on an equitable and non-discriminatory basis. If the basis chosen for the contribution mechanism is one that does not apply to a particular carrier, then that carrier need not be required to contribute at all, just as today carriers – again no matter how large – that provide only wholesale services or whose interstate revenues are less than 12% of combined interstate/international revenues are not required to contribute.